

Utah Retirement Systems (URS)

Presentation to the Retirement
and Independent Entity Committee
November 12, 2014

Governmental Accounting Standards Board
(GASB) New Pension Standards

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TIMELINE

GASB 67 (Plan's Accounting)

Statement Adoption Fiscal Year Beginning After
June 15, 2013

GASB 68 (Employer's Financial Accounting)

Statement Adoption Fiscal Year Beginning After
June 15, 2014

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GASB 67 Major Changes to Pension Plans Financial Reporting

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Statement of Fiduciary Net Assets now “Statement of Fiduciary Net Position”

Statement of Changes in Fiduciary Net Assts now “Statement of Changes in Fiduciary Net Position”

Net assets held in trust for pension benefits now “Net position restricted for pensions”

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Additional footnote disclosures:

Additional actuarial note disclosures

Target asset class and long term expected rate of return

Sensitivity of the Pension Liability to discount rate
(our assumed rate of return)

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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

Information for the plan year ending December 31, 2013

| | 1.00% Decrease (6.5%) | Current Discount Rate (7.50%) | 1.00% Increase (8.50%) |
|-------------------------------|-----------------------------|-------------------------------------|------------------------------|
| <u>Utah Retirement System</u> | | | |
| <u>Total</u> | <u>\$7,851,845,798</u> | <u>\$ 4,075,492,785</u> | <u>\$927,757,521</u> |

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Changes to Required Supplemental Information:

“Schedule Changes in the Employers’ Net Pension Liability”

“Schedule of the Employers’ Net Pension Liability”

“Schedule of Employer Contributions”

“Schedule of Money-Weighted Investment Return”

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GASB 68 Changes to Employers Financial
Reporting for Pensions

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Disconnect between pension accounting measurements and pension funding measurements.

Employers will record a liability for their proportionate share of the cost-sharing plan's collective net pension liability (NPL) as a liability on their Statements of Net Position (balance sheet), rather than less prominently in the notes of the financial statements.

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GASB determined that the Pension Plan is responsible for the benefits to the extent it has assets to pay benefits.

Employer is responsible for portion of benefits not funded because the employer incurred a “Pension Obligation” as a result of the exchange of employee services for compensation.

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New standard:

Employers will show proportionate share Net Pension Liability (NPL)

| | | |
|-------------------------|-----------------|-----------------------|
| Total Pension Liability | 12-31-13 | \$29,171,564,000 |
| <u>Assets at market</u> | <u>12-31-13</u> | <u>25,096,072,000</u> |
| NPL | 12-31-13 | \$ 4,075,493,000 |

Proportionate Share 4.8933900%

XYZ City NPL \$199,429,757

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Employers Net Position All Retirement Systems

| Date | (1) Total Pension Liability | (2) Plan Fiduciary Net Position | (3) Employers Net Pension Liability / (Asset) | (4) Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|----------|--------------------------------------|--|--|---|
| 12/31/10 | \$ 25,535,499 | 19,756,106 | 5,779,393 | 77.4 % |
| 12/31/11 | 26,564,932 | 19,952,853 | 6,612,079 | 75.1 |
| 12/31/12 | 27,724,395 | 22,150,599 | 5,573,796 | 79.9 |
| 12/31/13 | 29,171,564 | 25,096,072 | 4,075,492 | 86.0 |

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Old Standard:

Employers only needed to report Annual Required Contribution (ARC)

New Standard:

Employers will now recognize their proportionate share of an actuarially calculated pension expense, which will no longer equal the statutorily required contribution, and it may be very volatile from year to year.

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The new employer pension expense will contain the following main components:

Normal cost (annual cost of current service), plus

Interest on total pension liability, plus

Changes in plan benefits, plus

Amortization of experience gains/losses, changes in assumptions, less

Expected return on plan assets.

Utah Retirement Systems

Schedules of Required Supplementary Information

Schedule of Changes in Employers' Net Pension Liability

December 31, 2013

| | |
|---|--------------------------|
| <u>Total pension liability</u> | |
| Service Cost | \$ 599,734,660 |
| Interest | 2,056,480,387 |
| Benefit Changes | 23,718,000 |
| Difference between actual and expected experience | (276,488,786) |
| Assumption Changes | 0 |
| Benefit Payments | (1,242,153,934) |
| Refunds | (4,948,749) |
| <u>Net Change in Total Pension Liability</u> | <u>1,156,341,578</u> |
| <u>Total Pension Liability - Beginning</u> | <u>28,015,222,761</u> |
| <u>Total Pension Liability - Ending (a)</u> | <u>\$ 29,171,564,339</u> |

| | |
|--|--------------------------|
| <u>Plan Fiduciary Net Position</u> | |
| Contributions – Member | 40,167,527 |
| Contributions - Employer | 889,485,826 |
| Court Fees and Fire Insurance Tax | 12,782,786 |
| Net Investment Income | 3,260,546,791 |
| Benefit Payments | (1,242,153,934) |
| Refunds | (4,948,749) |
| <u>Administrative Expense</u> | <u>(10,400,941)</u> |
| <u>Net Change in Plan Fiduciary Net Position</u> | <u>2,945,479,307</u> |
| <u>Plan Fiduciary Net Position - Beginning</u> | <u>22,150,592,247</u> |
| <u>Plan Fiduciary Net Position - Ending (b)</u> | <u>\$ 25,096,071,554</u> |
| <u>Net Pension Liability - Ending (a) - (b)</u> | <u>\$ 4,075,492,785</u> |

| | |
|--|------------------|
| Plan Fiduciary Net Position as a Percentage of | |
| the Total Pension Liability | 86.0% |
| Covered Employee Payroll | \$ 4,669,558,417 |
| Net Pension Liability as a Percentage of Covered | |
| Employee Payroll | 87.3% |

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Calculation of Pension Expense

| | |
|---|-----------------------|
| Pension Expense | |
| - Service Cost | \$ 599,734,660 |
| - - Interest Cost | 2,056,480,387 |
| - - Benefit Changes | 23,718,000 |
| - - Member Contributions | (40,167,524) |
| - - Projected Investment Earnings | (1,649,869,422) |
| - - Admin Expenses | 10,400,938 |
| - - Other | 0 |
| - - Deferred Outflow/(Inflow) due to Liabilities | (67,170,319) |
| - - Deferred Outflow/(Inflow) due to Assets | (322,135,474) |
| Total Pension Expense | \$ 610,991,246 |

Employer Schedules Included in the URS CAFR

(Cost Sharing Multiple Employer Only)

Participating Employer Contributions Proportionate Share

Employer

| | | |
|-----|--------------|-------------|
| 001 | 289,369 | 0.0517168% |
| 002 | 38,618,533 | 6.9020189% |
| 003 | 40,521 | 0.0072420% |
| 004 | 700,346 | 0.1251680% |
| 005 | 6,986,147 | 1.2480488% |
| 006 | 844,277 | 0.1508916% |
| 007 | 3,823 | 0.0006833% |
| 008 | 24,405 | 0.0043617% |
| 009 | 134,7523,050 | 24.0781034% |
| 465 | 4,982,846 | 0.8905491% |

Employer Schedules Included in the URS CAFR

Schedule of Pension Amounts by Employer

\$ in Thousands

| Entity | Deferred Outflows of Resources | | | | | | Deferred Inflows of Resources | | | | | Pension Expense | | |
|--------|--------------------------------|------------|-------------|-------------|---------------|-----------|-------------------------------|-------------|-------------|---------------|-----------|--|---------------|--------------------------------|
| | Net Pension Liability | Experience | Investments | Assumptions | Contributions | Resources | Experience | Investments | Assumptions | Contributions | Resources | Proportionate Share of Pension Expense | Contributions | Total Employer Pension Expense |
| Total | \$4,076,452 | 3,248 | - | - | - | 3,248 | 208,522 | 1,242,426 | - | - | 1,450,948 | 610,991 | - | 610,991 |
| 001 | 454 | - | - | - | - | - | 28 | 159 | - | - | 187 | 102 | - | 102 |
| 002 | 199,490 | - | - | - | - | - | 9,604 | 57,603 | - | - | 67,207 | 33,391 | - | 31,391 |
| 003 | 209 | - | - | - | - | - | 10 | 60 | - | - | 70 | 31 | - | 31 |
| 004 | 267 | - | - | - | - | - | 16 | 94 | - | - | 110 | 55 | - | 55 |
| 005 | 4,190 | 1 | - | - | - | - | 365 | 1,561 | - | - | 1,926 | 887 | - | 887 |
| 006 | 3,616 | - | - | - | - | - | 177 | 1,045 | - | - | 1,233 | 585 | - | 585 |
| 007 | 44 | - | - | - | - | - | 3 | 15 | - | - | 18 | 9 | - | 9 |
| 008 | 67 | - | - | - | - | - | 4 | 24 | - | - | 28 | 14 | - | 14 |
| 009 | 941,655 | - | - | - | - | - | 35,336 | 256,763 | - | - | 292,099 | 142,640 | - | 142,640 |
| 465 | 952 | - | - | - | - | - | 7 | 39 | - | - | 46 | 23 | - | 23 |

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GASB 68 Expanded employer footnote disclosures will include:

Basic information about the pension plans.

Classes of employees covered.

Information regarding pension liabilities, pension expense and deferred outflows and inflows of resources related to pensions.

Significant assumptions including salary increase, inflation, discount rate, mortality, and experience studies.

Target asset allocations and projected rate of return by asset class.

Sensitivity of the net pension liability to the discount rate.

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Require Supplementary Information (RSI)

Two or three separate schedules are going to be required

1. Schedule of The Net Pension Liability (for ten years)
2. Schedule of Employer Contributions (for ten years)
3. Schedule of changes in Net Pension Liability (for single employer and agent plans only)

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Questions?

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Kim Kellersberger
Finance Director
Utah Retirement Systems

Kim.Kellersberger@urs.org
801-366-7457

WWW.URS.ORG